

# China Pacific Insurance (2601 HK)

## Potential GDR issuance unlocks global access

- **What's new?** Market responded negatively to CPIC's plan to issue GDR, for fear of potential discount of GDR pricing to its A-share and likely share dilution after 120 days of listing when GDRs are allowed to be converted into A shares. Adding to uncertainty is the resignation of President HE Qing due to work arrangement, who will become Head of Guotai Junan Securities. CPIC's A/H share price declined 2.7%/4.3%, respectively, on 24 Sep.
- **While the above are indeed risk factors, we think investors should not over-react** because 1) listing details have not been determined, still waiting for regulatory approval. Offer size and pricing will be contingent on market environment at the time of listing. Moreover, discount to A-shares does not necessarily imply discount to H-shares because of ~30% H-to-A discount; 2) conversion into A shares, or arbitrage is allowed theoretically, but could prove difficult in reality. HTSC's GDR will not offer a precedent to judge from until Oct, i.e. 120 trading days after its debut on 20 Jun 2019; 3) work arrangement and entrepreneur rotation is quite normal in SOEs. Chairman Kong Qingwei will be in charge temporarily to make smooth transition.
- **Potential issuance of GDR implies at least the following catalysts, all boding well for long-term development.** 1) To establish global footprint and be acknowledged by global investors. If the issuance of GDR is well accepted by global investors, it will also boost value of the Company's H-share. 2) To jumpstart and promote internationalization of the Company. 3) To pilot Shanghai's SOE reform and financial sector opening-up.
- **Will also capture opportunities in Shanghai and Yangtze River Delta.** Besides a potential GDR listing, we think the Company will also benefit from 1) Shanghai's deepening opening-up to global investors and enterprises. The City has recently expanded the Pilot Free Trade Zone to embrace the Lingang New Area; and 2) further integration of the Yangtze River Delta. Regional development plans will present business opportunities in pensions, alternative investment and etc. for CPIC, which is headquartered and deeply-rooted in Shanghai and the YTD.
- **CPIC as sector top pick.** The H-share is now trading at 0.63x FY19E P/EV with ~6% dividend yield. Market overreaction to potential GDR issuance offers good opportunities to accumulate. Maintain BUY and TP at HK\$37.12.

### Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
GWP (RMB mn)	281,644	321,895	349,515	378,174	408,011
YoY growth (%)	20.4	14.3	8.6	8.2	7.9
Total income (RMB mn)	319,405	353,103	385,533	417,928	450,786
Net profit (RMB mn)	14,662	18,019	27,922	31,170	31,795
EPS (RMB)	1.62	1.99	3.08	3.44	3.51
YoY Growth (%)	21.65	22.90	54.96	11.63	2.00
P/B (x)	1.71	1.57	1.39	1.26	1.16
P/EV (x)	0.82	0.70	0.63	0.58	0.53
Yield (%)	3.08	3.86	5.97	6.67	6.80
ROE (%)	10.89	12.55	17.52	17.52	16.33

Source: Company data, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$37.12
(Previous TP)	HK\$37.12)
Up/Downside	+28.4%
Current Price	HK\$28.90

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### Stock Data

Mkt Cap (HK\$ mn)	326,195
Avg 3 mths t/o (HK\$ mn)	481.96
52w High/Low (HK\$)	34.75/24.20
Total Issued Shares (mn)	<b>2,775 (H)</b>
	6,287 (A)

Source: Bloomberg

### Shareholding Structure

Shenergy (Group)	14.19%
Fortune Investment	14.17%

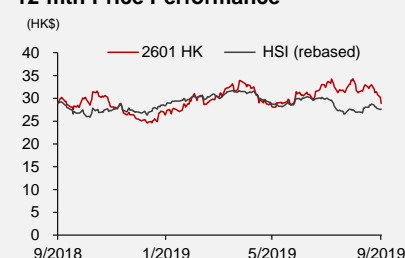
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	-12.0%	-12.1%
3-mth	-2.6%	5.8%
6-mth	-0.7%	10.3%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

### Auditor: PwC

### Related Reports

1. "Lackluster life but improving P&C" – 26 Aug 2019
2. "Result in-line, expect FYRP recovery" – 24 Apr 2019
3. "Undervalued solid player" – 26 Mar 2019
4. "Committed to digital transformation" – 21 Nov 2018

## Financial Summary

### Income

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	281,644	321,895	349,515	378,174	408,011
Incl: Life GWP	175,628	202,414	218,376	235,232	252,204
P&C GWP	104,614	117,808	131,140	142,942	155,807
Net premiums earned	263,554	299,724	323,739	350,135	377,375
Investment income	52,657	49,999	58,232	63,941	69,260
Total income	319,405	353,103	385,533	417,928	450,786
Insurance claims and reserves	(210,130)	(226,444)	(248,118)	(267,277)	(287,237)
Other operating expenses	(88,247)	(98,986)	(107,328)	(104,229)	(116,213)
Total expenses	(298,377)	(325,430)	(355,447)	(371,507)	(403,450)
Associates and JVs	74	335	451	474	497
Pre-tax profit	21,102	28,008	30,537	46,894	47,834
Income tax	(6,111)	(9,574)	(1,972)	(15,006)	(15,307)
Less: Minority interests	(329)	(415)	(643)	(718)	(732)
Net profit	14,662	18,019	27,922	31,170	31,795

### Key ratios

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Group (%)					
Total GWP growth	20.4	14.3	8.6	8.2	7.9
Total income growth	20.0	10.6	9.2	8.4	7.9
Net profit growth	21.6	22.9	55.0	11.6	2.0
EV growth	16.4	17.5	11.1	9.0	8.2
Net investment yield	5.4	4.9	4.5	4.5	4.5
Total investment yield	5.4	4.6	4.5	4.5	4.5
Investment assets growth	14.8	14.1	11.9	7.9	8.7
Life (%)					
GWP growth	27.9	15.3	7.9	7.7	7.2
Agent FYRP growth	31.2	(9.7)	(8.0)	2.0	3.0
NBV growth	40.3	1.5	(3.4)	2.0	3.0
NBV margin (NBV/agent APE)	56.5	63.2	66.4	66.4	66.4
Life comprehensive solvency	245.3	260.8	259.7	260.8	255.7
P&C (%)					
GWP growth	8.8	12.6	11.3	9.0	9.0
Auto GWP/total P&C	78.2	74.7	71.0	67.5	64.7
Loss ratio	59.9	56.3	56.3	56.3	56.3
Expense ratio	38.9	42.1	42.1	42.1	42.1
Combined ratio	98.8	98.4	98.4	98.4	98.4
P&C comprehensive solvency	267.4	305.9	302.4	300.0	296.4
Returns (%)					
Life RoEV	24.8	24.7	16.7	15.9	15.4
P&C ROE	10.7	10.0	16.7	15.7	13.9
Per share					
EPS (RMB)	1.62	1.99	3.08	3.44	3.51
DPS (RMB)	0.80	1.00	1.55	1.73	1.76
EVPS (RMB)	31.58	37.09	41.22	44.94	48.60
BVPS (RMB)	15.17	16.51	18.67	20.59	22.39

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	1,081,282	1,233,222	1,379,836	1,488,970	1,618,152
other assets	89,942	102,737	101,052	139,200	157,362
Total assets	1,171,224	1,335,959	1,480,888	1,628,169	1,775,514
Insurance liabilities	858,507	981,926	1,112,771	1,240,808	1,371,315
Subordinated debt & others	171,598	199,985	193,924	195,103	194,852
Total liabilities	1,030,105	1,181,911	1,306,694	1,435,911	1,566,168
Shareholders' equity	137,498	149,576	169,210	186,558	202,914
Minority interest	3,621	4,472	4,983	5,701	6,432
Total equity	141,119	154,048	174,194	192,258	209,346

Source: Company data, CMBIS estimates

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<b>NOT RATED</b>	: Stock is not rated by CMBIS

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